

BTI 2012 | Taiwan Country Report

Status Index	1-10	9.54	# 2 of 128	
Political Transformation	1-10	9.65	# 2 of 128	➔
Economic Transformation	1-10	9.43	# 2 of 128	➔
Management Index	1-10	7.72	# 1 of 128	

scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

More on the BTI at <http://www.bti-project.org>

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Key Indicators

Population	mn.	23.1	HDI	-	GDP p.c.	\$	35228
Pop. growth ¹	% p.a.	0.3	HDI rank of 187	-	Gini Index		-
Life expectancy	years	78	UN Education Index	-	Poverty ³	%	-
Urban population	%	59.3	Gender inequality ²	-	Aid per capita	\$	-

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Throughout the period under review, Taiwan has remained a high performer in terms of democratic consolidation and market institutionalization. Notwithstanding a significant government change in mid-2008, when the Kuomintang (Chinese Nationalist Party, KMT) (who had previously ruled from 1945 to 2000) returned to power after eight years, Taiwan continues to enjoy a high degree of stateness, meaningful elections, the absence of undemocratic veto actors, stable democratic institutions and a vibrant civil society. The judiciary has come under criticism by the Democratic Progressive Party (DPP) opposition and a number of scholars for an allegedly unfair and biased legal treatment of former President Chen Shui-bian, but there is still a broad consensus within society that the country's legal institutions operate reasonably well. As a matter of fact, Taiwanese politics have become less polarized since the current administration launched a range of initiatives to ease tensions between Taiwan and China, leading to 14 cross-strait accords and, most importantly, to the establishment of direct transport and trade across the Taiwan Strait and the signing of a quasi-free trade agreement.

Economically, Taiwan was hit strongly by the global financial crisis of 2008/2009, but steered through it remarkably well because of resolute and efficient government crisis management and sound cross-strait economic interaction. Consequently, Taiwan's economy bounced back rather quickly with a growth rate of more than 10% in 2010. Inflation has been controlled effectively and overall trade, which fell sharply between 2008 and 2009, has recuperated quickly since then. On the negative side, Taiwan now faces an unemployment rate of more than 5%, in comparison to less than 4% before the crisis broke out. Moreover, its financial sector is still a weak point on its overall economic performance sheet. However, the government is bidding to ensure stabilization by its efforts to curb the number of financial institutions, to increase the internationalization of the banking system and to aid expansion into the mainland market.

History and Characteristics of Transformation

In Taiwan, political transformation has long taken a backseat to economic transformation. The foundations of a sound market economy were laid in the 1950s under the authoritarian leadership of Chiang Kai-shek. During that time, the state intervened with a strong hand in economic affairs, regulating and protecting domestic markets. In the four decades of authoritarian rule that followed the Chinese Civil War in 1949, Taiwan moved gradually toward a social market economy and established rudimentary social insurance systems. Democratic transition began with the illegal founding of the DPP on 28 September 1986 – a move tolerated at the time by the ruling KMT regime – and the lifting of martial law on 14 July 1987. More reforms followed, most importantly the legalization of new political parties in January 1991. In 1991 and 1992 respectively, Taiwan saw free elections to its central parliamentary bodies, the National Assembly and the Legislative Yuan, for the first time, marking the end of the transition process. During the 1990s, democracy matured by successive constitutional reforms that, along with other changes to Taiwan's political system, paved the way for the first direct presidential election in early 1996. The incumbent president and KMT party chief Lee Teng-hui won this election and gained himself the epithet of Taiwan's "father of democracy." Successful democratic consolidation had already been achieved when Chen Shui-bian, an experienced DPP politician and stout advocate of Taiwanese independence, unexpectedly won the March 2000 presidential election and made the KMT an opposition party for the first time since 1949, when Chinese nationalists fleeing the communist revolution on the mainland formed the first ROC or Taiwanese government. The following eight years were dogged by severe legislative inefficiency as the partisan conflict between the ruling DPP and the KMT-led opposition, which commanded a majority in parliament, paralyzed the political process. Cross-strait relations further soured as the new president pursued an agenda of assuring Taiwanese sovereignty against Beijing's "one China principle" and pushed for a referendum law and a new constitution.

Politically paralyzed and delegitimized by corruption charges against himself, a number of family members and close advisors, Chen Shui-bian became a "lame duck" toward the end of his second administration and caused the DPP dramatic losses in the 2008 parliamentary and presidential elections. The KMT returned to power under President Ma Ying-jeou, who governed the Legislative Yuan with a two-thirds majority. Chen Shui-bian was pursued through the courts on various corruption charges after he stepped down in mid-2008, provoking accusations of KMT revenge and a return to authoritarian politics, but the judiciary – though it made mistakes in handling the case – operated according to the law and maintained its independence. The Ma administration embarked on a pro-active, pro-Chinese policy to restart cross-strait negotiations that have produced 14 accords since 2008 including the establishment of direct trade and transport links across the Taiwan Strait and the signing of a quasi-free trade agreement, the Economic Framework Agreement (ECFA). In early 2011, relations between Taiwan and China seem to be more stable than ever before, though the sovereignty dispute

remains unresolved and China's military threat continues unabated. Increasing economic integration across the Taiwan Strait is supposed to be beneficial to the growth of the Taiwanese economy though there is also the danger that Taiwan's economic dependence can be used for political blackmail by China. Meanwhile, most Taiwanese overwhelmingly opt for the maintenance of the status quo in the Taiwan Strait and uncompromisingly stick to their country's de facto independence. They are also prepared for further measures to institutionalize cross-strait interaction.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 10 (best) to 1 (worst).

Transformation Status

I. Political Transformation

1 | Stateness

Although Taiwan's status under international law is contested, the Taiwanese state (which is officially named the Republic of China (ROC)) enjoys effective power and authority over its territory, including the islands of Taiwan, Penghu, Matsu and Kinmen.

The conflict over Taiwan's political future as an independent nation-state or as part of a new and unified China remains to be resolved. The large majority of Taiwanese support the status quo in the Taiwan Strait, which best serves their security interests. However, most studies show that Taiwanese national identity has been strengthening steadily since the early 1990s, deepening the people's identification with their state and their desire for sovereignty.

In Taiwan, state legitimacy is fully derived from a secular constitution. Religious dogmas play no role.

Taiwan's civilian administration is differentiated, professional and provides sound and reliable public services throughout the country. The judicial system, law enforcement and the taxation bureaucracy are well established and functional. Access to water, education and health services is secure and the existing, highly developed communication and transport infrastructure continues to be upgraded.

2 | Political Participation

All relevant political offices are subject to competition in regular, universal and secret multi-party elections which are usually undisputed and are widely covered by the media. There are no restraints on the electoral process, which is fair and

Question

Score

Monopoly on the use of force

10

State identity

10

No interference of religious dogmas

10

Basic administration

10

Free and fair elections

10

transparent. However, vote buying in local elections is still quite rampant and has so far weathered all legal attempts to curb it.

All elected rulers have effective power to govern, and there are no veto powers or exclusive political domains that might negatively affect democratic participation.

Effective power to govern

10

The freedoms of association and assembly are constitutionally guaranteed, generally unrestricted and extensively exercised. The right to strike is established by law. The restrictive Assembly and Parade Act was redrafted in mid-2009 as a result of the late-2008 student protests against police violence and alleged legal abuse during demonstrations responding to the visit of a People's Republic of China (PRC) official to Taiwan. The proposed revisions continue to give state police substantial veto powers over the content and location of citizen rallies. After redrafting, the law was submitted to the Council of Grand Justices (Taiwan's constitutional court) in September 2010, which was considering a pending case involving an university professor who was accused of having violated the act during a two-day sit-in that formed part of the student protests. This case has triggered an ongoing debate on the abolition of the act, one of the last remnants of the authoritarian era. Although trade unions are independent, government employees, soldiers and defense-industry workers remain barred from joining them. On the positive side, an amendment to the Labor Union Act passed in June 2010 has relaxed existing restrictions on the participation in and formation of trade unions. It also gave teachers the right to have their own unions for the first time. Moreover, collective bargaining and the settlement of labor disputes have been eased by amendments to corresponding legislation in 2008 and 2009, which will take effect in May 2011.

Association / assembly rights

10

Freedom of opinion and freedom of the press are well established and are exercised unrestrictedly, with vigorous and diverse reporting on government policies and alleged official wrongdoing. Aggressive media reporting on the government's handling of disaster relief operations during Typhoon Morakot in 2009, for instance, contributed to the resignation of Prime Minister Liu Chao-shiuan. There are no instances of systematic media harassment or violence against reporters. However, since 2008 there have been indications of increased government influence over the editorial content of publicly owned outlets and also of increased editorial pressure on some privately owned print media to soften criticism of the KMT administration and the Chinese government. This made Taiwan drop four places to 47 in the 2010 Freedom House rankings. Even though restrictions have been loosened since 2008, publications from mainland China are still subject to screening and can be banned from market distribution in Taiwan. At the same time, however, Taiwan has over 360 privately owned newspapers, more than 170 radio stations and approximately 100 cable television stations that secure a plurality of opinions. The licensing and reviewing of broadcast programs by the Government Information Office have been abolished. There are no restrictions on the use of the internet,

Freedom of expression

10

which is currently accessible to about 70% of the population. Foreign media have free access to Taiwan and can work without restrictions, and the working conditions for journalists from the PRC have markedly improved since the upturn of Taiwan–China relations after the change of government in 2008.

3 | Rule of Law

The separation of powers into executive, legislative and judicial branches is well established and there is no extralegal execution of governmental power. After three years of inoperability, the Control Yuan was reactivated in 2008 and it once more exerted an effective ex-post control of government action, including budget auditing, censure and impeachment. However, the government system continues to suffer from the inconsistent constitutional relationship between the president and parliament: While the popularly elected president appoints the head of the Executive Yuan (the premier) without the consent of parliament (the Legislative Yuan), the latter has the authority to dismiss the cabinet by a vote of no confidence against the premier. Since the president can dissolve the legislature in such a case, the powers of the parliament are limited and there are almost no institutional guards against political stalemate in cases of divided government (i.e., when the president and the legislative majority belong to different parties). This happened during the eight years of DPP government (2000 – 2008). After the overwhelming victory of the KMT in the 2008 legislative and presidential elections, the DPP attempted to invoke Taiwan’s bad memories of the authoritarian era when an unchallenged KMT controlled all the political institutions. However, there has been no observable setback for the separation of powers since then.

Separation of
powers
10

Judicial independence is well established in Taiwan and court trials are generally fair. However, individual cases exposed flaws in the protection of criminal defendants’ rights. On various occasions, the DPP opposition has accused Taiwan’s lower courts of being too closely allied with the KMT government, engaging in the “political persecution” of former president Chen Shui-bian. Though these accusations could not be substantiated and though there is no evidence of a systematic partisan bias within the legal system, the public image of the judiciary was tarnished and a debate on “political persecution” began.

Independent
judiciary
10

A range of sunshine laws regulate political donations, declarations of income for public servants and the rules for political lobbying. Political corruption receives a great deal of attention in the mass media. It is an important issue on the platforms of all relevant political parties, and is prosecuted rigorously under criminal law. For instance, more than 100 people were detained on suspicion of vote buying ahead of Taiwan’s five special municipality elections and local elections in November 2010. However, members of parliament, cabinet members and members of county and city parliaments enjoy immunity, thus postponing potential legal persecution when

Prosecution of
office abuse
10

those who are accused refuse to step down. Former President Chen Shui-bian was indicted for corruption in various cases and was detained directly after his second term ended in 2008. He and his wife were sentenced in September 2009 to life imprisonment on charges of embezzlement and money laundering, which in June 2010 was reduced to 20 years.

Taiwan enjoys a very good human rights record according to all relevant international observer groups and there are no reports of unlawful or arbitrary use of state power against the population. Civil rights are constitutionally guaranteed and well protected, and those who violate them are taken to court. The judicial system provides ample opportunities to seek redress for rights violations. Court trials follow due process and there are no reports of physical abuse of prisoners. However, following a temporary moratorium between 2006 and 2009, capital punishment was resumed in 2010 and several suspects were detained for extended periods prior to final conviction, including former president Chen Shui-bian, who has been held in custody on corruption charges throughout the review period. The rights of mainland spouses of Taiwanese citizens, who have long suffered from discrimination, have improved considerably in the review period. Improvement is still wanting with respect to the protection of the civil rights of Taiwan's 350,000 foreign workers who are not covered by the Labor Standards Law and are not represented by unions. With the 2009 passage of the Human Trafficking Prevention Act, sex, organ and labor trafficking was criminalized, addressing one of the few major long-standing problems in Taiwan's human rights record.

Civil rights
10

4 | Stability of Democratic Institutions

All government institutions are democratically legitimized, work according to legal procedures and are sufficiently controlled by a working system of mutual checks and balances. In combination with the zero-sum nature of Taiwan's political culture and the lack of incentives for inter-party compromise and majority building, the existing semi-presidential system of government is prone to deadlock in times of divided government. Since the KMT's victory in the 2008 parliamentary and presidential elections, however, Taiwan's democratic institutions function without major frictions and have introduced a large number of important political reforms.

Performance of
democratic
institutions
9

All relevant political actors accept the democratic institutions as legitimate and there are no attempts to realize political goals outside of the legally defined democratic channels.

Commitment to
democratic
institutions
10

5 | Political and Social Integration

In recent years, a stable, moderate, socially anchored party system has emerged which enjoys broad popular support. The party system continues to suffer from polarization, as the two opposing party alliances (the “blue camp” of KMT, People’s First Party (PFP) and New Party (NP) and the “green camp” of DPP and the Taiwan Solidarity Union (TSU)) take antagonistic stances on cross-strait policy and the issues of unification with China versus Taiwanese independence. However, in this the party system reflects diverging opinions within the populace and aggregates societal interests fairly well. Furthermore, the two party camps do not diverge very much when it comes to other substantive policy fields like anti-corruption, environmental protection, social welfare and industrial upgrading. Finally, since Chen Shui-bian’s departure from the presidency, the ideological cleavage within the party system seems to be narrowing, as the KMT’s China policy enjoys much public support and forces the DPP to redefine its formerly radical stance on the issue of economic and social integration across the Taiwan Strait.

Party system
9

Taiwan is home to a wide variety of civil society groups, including unions, professional and business organizations, social and environmental movements, and other associations which represent a broad range of societal interests. This network of interest groups is close-knit, politically influential and operates independently of the state. There are no attempts by non-state interest groups to abandon democracy or organize political violence and no group can dominate others. However, parts of Taiwan’s civil society remain focused on ideological issues related to cross-strait policy and the unification/independence split, often resulting in factional strife. Also, there is still too little private engagement in terms of charity and volunteerism.

Interest groups
9

Voter turnout, which lies between 60% and 80% for national and local elections, suggests strong citizen consent to democracy. The latest World Value Survey conducted in Taiwan (2006) found that the overwhelming majority approve of democracy in principle, with 60% of the population considering a democratic system “fairly good,” and another 30% percent “very good.” Similarly, the majority of Taiwan’s populace finds democracy suitable for their country and almost 60% are satisfied with the way democracy works in Taiwan. Alternative forms of government are widely rejected. However, more than two thirds of Taiwanese lack confidence in their government, indicating some degree of alienation. This must be seen in the context of high political polarization and public frustration with political deadlock and government inefficiency during the DPP’s rule, and must certainly not be interpreted as deeply entrenched reservations about the democratic system.

Approval of
democracy
9

Social self-organization has gained momentum since Taiwan's democratic transition. A variety of organizations, including an outspoken environmental movement, social groups and lively religious communities, have contributed to the consolidation of democracy by supporting non-violence, tolerance and a democratic culture. Based on 2006 World Value Survey data, interpersonal trust is fairly high in Taiwan when compared with other new democracies. Social tensions over the ethnic (the mainlander/Taiwanese divide) and ideological (the independence/unification divide) cleavages within the elite and civil society may gradually lose their saliency in the future, not least because the DPP leaned towards a new, less divisive political profile in the aftermath of the Chen Shui-bian era.

Social capital
8

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Taiwan is a highly developed market economy. The country's level of socioeconomic development permits adequate freedom of choice for all citizens. Fundamental social exclusion due to poverty, gender, religion or ethnicity is qualitatively minor to non-existent and is not structurally embedded. Taiwan's poverty rate stood at just 0.95% in the review period. Income distribution — as measured by the Gini coefficient — is relatively equal and has only slightly deteriorated in recent years (2006: 0.339; 2009: 0.345). In 2010, the island republic ranked 18th globally according to HDI methodology. The most socially excluded group has so far been Taiwan's 350,000 strong foreign-worker community, which suffers from low salaries and social discrimination, but also enjoys increasing support from civic groups and social organizations.

Socioeconomic
barriers
10

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	393100.0	402600.0	379000.0	430580.0
GDP growth	%	6.0	0.7	-1.9	10.8
Inflation (CPI)	%	1.8	3.5	-0.9	1.0
Unemployment	%	3.9	4.1	5.9	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	-	-	-	-
Export growth	%	9.6	0.9	-8.7	25.6
Import growth	%	3.0	-3.7	-12.8	28.2
Current account balance	\$ mn.	35154.0	27505.0	42911.0	-
Public debt	% of GDP	33.3	36.0	39.9	39.7
External debt	\$ mn.	-	-	-	-
Total debt service	\$ mn.	-	-	-	-
Cash surplus or deficit	% of GDP	-0.2	-0.8	-3.6	-
Tax revenue	% of GDP	9.3	9.8	8.4	-
Government consumption	% of GDP	11.8	12.4	13.0	12.1
Public expnd. on edu.	% of GDP	-	-	-	-
Public expnd. on health	% of GDP	-	-	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	2.0	2.2	2.4	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

Taiwan's market economy is institutionally sound with clearly defined and state-guaranteed rules for ensuring fair competition and largely equal opportunities for all market participants. Business freedom is high and market actors face neither entry nor exit barriers. Foreign and local investments are subject to the same laws, and with the signing of the ECFA, a quasi-free trade agreement, between Taiwan and the PRC in June 2010, investments in and transfer of technology to mainland China, as well as cross-strait trade, have been substantially facilitated. However, China's access to Taiwanese markets, especially in the realm of capital, labor and agriculture, remains restricted due to the island economy's strong exposure to China and for security reasons.

Even though the state maintains its monopoly over certain basic utilities and services (e.g., electricity, water supply and postal services), market competition is well established and legal frameworks exist to combat cartels. Compliance with the WTO regime, to which Taiwan gained access in January 2002, forced the island

Market-based
competition

9

Anti-monopoly
policy

10

republic to abandon its last monopoly on tobacco and wine products. In addition, the Fair Trade Law that took effect in 2002 ensures a coherent and effective approach to combating monopolistic structures or predatory price fixing.

Taiwan enjoys a high degree of trade freedom as its economy is heavily reliant on trade and the country is one of the world's principal exporters of electronics and information and telecommunication technology. Since Taiwan entered the WTO, import restrictions have been cut, many tariffs on imported goods reduced to zero and trade in services has been liberalized. With the exception of cross-strait economic relations, the state refrains from intervening in investment planning and foreign trade. Intervention mainly takes place in order to control the level of Taiwan's trade dependency on China, and mainly refers to agricultural products, pharmaceuticals, iron and steel, electronic equipment, and textile products. Almost 25% of Taiwan's exports and 60% of its outbound investment now go to the Chinese mainland according to official, and hence conservative, figures. However, trade over the Taiwan Strait has intensified steadily in recent years. It is expected to be further boosted by the formal establishment of direct transport and trade links in November 2008 and a number of bilateral agreements to facilitate cross-strait economic exchange – most notably the ECFA agreement. The remaining restrictions on the import of mainland Chinese products and services will be gradually abolished.

Liberalization of
foreign trade
10

Today, Taiwan has a tightly regulated banking system which is effectively supervised by the Financial Supervisory Commission (FSC) and an independent central bank. The capital and stock market is well developed and in principle open to foreign participation. The market share of all foreign banks in Taiwan increased to 17% in 2009 in terms of assets, and to 10% in terms of loans. A number of new securities firms, banks, insurance companies, and holding companies have been established in recent years, underscoring a trend of gradual liberalization and enhanced competition. Moreover, nine state-owned banks have been privatized over the past decade. However, state-controlled banks still dominate the banking sector, holding a market share of 50% in terms of assets and 56% in terms of loans. While the ratio of non-performing loans declined steadily over the review period from 1.55% in June 2008 to just 0.91% in September 2010, the capital adequacy ratio of Taiwan's bank improved from 10.89% to 11.61% over the same period. Bank deposits have been protected by subsequent government schemes, the last one becoming effective on 1 January 2011. The government has also adopted the Basel III Accord of September 2010 to strengthen global financial markets, according to which banks must raise their minimum equity requirement from 2% to 4.5% by 1 January 2015. Under the ECFA agreement, Taiwanese banks can open branches in mainland China that will be permitted to conduct Renminbi business after two years in operation. Success in China will contribute to a further strengthening of the

Banking system
9

banking sector in Taiwan, which is still overcrowded (406 banking institutions at the end of 2009) and must shrink by more mergers in the future.

8 | Currency and Price Stability

Taiwan had low inflation levels during the review period, with consumer prices rising 1.25% in 2010 (2009: -0.87%). The value of the New Taiwan Dollar (NTD) has remained quite stable against the U.S. dollar even during the 2008/2009 global financial crisis (annual average 2009: \$1 = NTD 32.030). Taiwan's foreign exchange policy has been consistently linked to the goal of financial and economic stability that was underlined by the government's quick and resolute reaction to the crisis by putting on track a NTD 500 billion stimulus package projected to last until 2012. Taiwan's prudent forex policy generated foreign exchange reserves of \$348 billion by the end of 2009 (September 2010: \$380 billion), topped only by China, Japan and Russia. Taiwan's central bank has been independent since the mid-1980s and enjoys a reputation for sound monetary supervision and control.

Anti-inflation /
forex policy
10

Taiwan's total public debts have hit record highs during the period under review, reaching 46.7% at the end of 2009 (from 40.1% in 2007), and its budget deficit reached 3.9% in 2010 (0.4% in 2007 and 4.5% in 2009). These hikes are clearly linked to the global financial crisis, which significantly reduced tax revenues, and the post-crisis government stimulus package which greatly expanded government spending. However, the 2002 Public Debt Act caps overall public debt at 48% of the average GNP of the previous three years, and fiscal stability remains a central pillar of Taiwan's overall economic policy. Taiwan's robust economic rebound in 2010 (with a GDP growth rate of 10.82% in 2010 and a projected 4.92% for 2011, against negative growth of -1.9% in 2009), its dynamic private sector and abundant domestic liquidity will make it rather easy to finance and gradually reduce existing government deficits.

Macrostability
10

9 | Private Property

Taiwan's property rights regime is well established and enforced by the judiciary. In recent years, the authorities have stepped up the protection of intellectual property rights and the fight against product piracy. An intellectual property court was established in 2008 and new rules have been set up to counter the pervasive practice of violating copyrights via internet file-sharing.

Property rights
10

Taiwan's economy is mainly based on small- and medium-sized private companies (around 90% of all companies), which are adequately protected by the state. The privatization process for Taiwan's state-owned enterprises (SOEs) has come to a virtual standstill in the review period. The state continues to be directly involved in

Private enterprise
9

a number of “strategic” economic areas (shipbuilding, petroleum, steel, sugar, tobacco and liquor, banking, insurance and railway transport), and basic utilities (electricity, water supply, and postal services). Privatization of SOEs followed market principles when it occurred at all.

10 | Welfare Regime

Taiwan has one of the most comprehensive and well-developed welfare regimes in Asia and public welfare expenditures account for large shares of the annual budget (with social welfare, excluding retirement and compassionate aid, accounting for 15.3% in 2009 and 19% in 2010). The social safety net is close-knit, provides for substantial protection against poverty and other social risks, and has seen further expansion during the review period. The state provides compulsory health insurance for employed citizens and farmers, compulsory unemployment insurance including a vocational training and employment service system, a pension and insurance annuity system. It also makes payments to the handicapped and disadvantaged families, including living cost allowances, health care and special subsidies. Although rated one of the best schemes in Asia, Taiwan’s health insurance scheme has been underfinanced since its establishment, causing two adjustments of the premium and, most recently, the introduction of a “second generation National Health Insurance” scheme which stipulates that premiums should be set at 4.91% of monthly salaries, increasing by another 2% if the insured has an additional household income of over NTD 2,000 stemming from interests, stock dividends, bonuses or rents. It is hoped that this modification, which supposed to come into effect in April 2011, will balance the current deficit (exceeding NTD 60 million) in five years time.

Social safety nets
9

According to the constitution, all citizens are equal before the law “irrespective of sex, religion, race, class, or party affiliation.” Aside from the government’s efforts to establish the necessary legal and institutional framework, a growing number of NGOs have ensured equal opportunity in Taiwan. Women’s rights have been continuously strengthened in recent years, with a focus on preventing and legally condemning domestic violence and sexual assault. The Gender Equality and Employment Act stipulates that the principle of equal pay for equal work must be respected, while adequate mechanisms to prevent sexual harassment are implemented in every workplace. The act also ensures women the right of eight weeks of paid maternity leave. In 2009, 50% of working-age women were employed or actively seeking work. According to the latest official figures published in early 2010, Taiwan had the second-highest GDI and Gender Empowerment Measure (GEM) in Asia in 2007, ranking 20th and 22nd globally. However, the average female wage barely exceeds 60% of that of male employees. The rights of immigrant spouses have been strengthened by the provision of

Equal opportunity
9

increasing public funds for counseling services, medical subsidies and educational assistance. However, they still do not enjoy the same rights as Taiwanese spouses in that their rights to work and inheritance are legally restricted. This refers specifically to spouses from the Chinese mainland. The government faces much pressure by an outspoken mainland spouses' movement that is supported by other Taiwanese NGOs. Taiwan's indigenous peoples, who account for about 2% of the total population, have access to a number of social welfare programs based on specific laws to protect their rights. These include low-interest housing loans and rent subsidies, privileged access to senior high schools and universities, a 1% quota within the work force at government agencies, public schools and state enterprises with 100 or more employees, and the protection of their language and culture. The social gap between these native groups and the Taiwanese Han-majority has narrowed over the years, but inequality still exists.

11 | Economic Performance

Taiwan was hit hard by the global financial crisis of 2008/2009, causing economic growth to fall from high levels in the previous years (2007: 5.98%) to negative growth in 2009 (-1.91%). However, on the basis of sound macroeconomic fundamentals and a strong export economy, growth rebounded in 2010 with 10.82% and another 4.9% forecast for 2011. Exports fell by more than 20% in 2009, but increased by 36.6% in 2010 (January – November). The island republic's overall trade surplus stood at \$29.3 billion at the end of 2009 and has even risen during the crisis, highlighting the overwhelming significance of mainland China's market as the major destination for Taiwanese goods. Inflation soared in 2008 (3.53%), but has fallen again to low average levels over the review period (2009: -0.87%; 2010: 0.96%). Similarly, unemployment increased as a result of the crisis from 4.12% in 2008 to 5.85% in 2009 but could be successfully contained due to a huge stimulus package quickly passed by the government. It averaged 5.26% in 2010 (January – November.). However, the unemployment rate is a weak point in Taiwan's overall good economic performance as measured against the pre-crisis years when it remained below 4%. Tax revenues are sound, totaling 12.2% of GDP at the end of 2009. The biggest problems remain the fiscal deficit, which stood at 4.5% of GDP in 2009 and 3.9% in 2010, and public debt levels which reached around 45% of GDP over the review period, mainly caused by the government's demand-driven measures to stimulate growth in the wake of the 2008 crisis.

Output strength
9

12 | Sustainability

Environmental awareness has been on the rise in Taiwan since the 1980s, mainly because of a strong social movement that pushed the government to make environmental protection a major concern in economic policy planning. Today, environmental protection is institutionally integrated at government level, both independently (by the Environmental Protection Administration or EPA) and at subdivisional level within different government entities, resulting in systematic environmental policy planning and a decreasing externalization of costs over the years. The development of green technologies and mechanisms for raising energy efficiency is an important part of the government's National Development Plan. During the review period, the government launched a new initiative to induce citizens to play an active part in environmental protection: A carbon-labeling program set up in March 2010 which indicates the greenhouse gas emissions created throughout the life-cycle of a product in order to influence citizens' purchasing decisions. The government also passed the Renewable Energy Development Act in June 2009 to increase Taiwan's renewable power generation capacity. The EPA will be upgraded to ministerial status by 2012 to enhance the efficiency of coordinating the government's different environmental policies, which are strongly supported by the populace. There is broad consensus on the island that greenhouse gas emissions pose the most serious long-term problem for Taiwan's environmental performance, as also indicated by its drop to 40 (from 24) in the 2008 Environmental Performance Index (EPI) ranking (Taiwan was not included in the EPI 2010).

Environmental
policy
8

Taiwan has a very well-developed education system with high-quality secondary and tertiary education as well as vocational training, reflecting the importance given to education in a society still heavily imbued with Confucian values. In 2010, 95.56% of all high school graduates enrolled in higher education. School curricula undergo continuous reform to keep the education system in line with international developments. Education, science and culture amounted to around 19% of all government expenditure throughout the review period. Overall expenditure on R&D stood at 2.94% of GDP in 2009 of which 29% was financed by the government. The Taiwanese government manages nearly 70 industrial parks and export-processing zones located all over the island and focuses its resources on the development of cutting-edge technologies like nanoscience and nanotechnology, system-on-chip products, genomic medicine and biotechnology. In 2010, the government outlined a plan of promoting "intelligent industries" such as cloud computing, electric vehicles and green buildings.

Education policy /
R&D
10

Transformation Management

I. Level of Difficulty

Taiwan enjoys few structural constraints on governance thanks to the following factors: Its high level of socioeconomic development; its sound market economy and good economic performance; a well-developed education system and research environment; a well-qualified labor force; a capable bureaucratic apparatus; low social disparities in terms of income and status; a lack of serious ethnoreligious conflicts; and an unchallenged state monopoly on the use of force. Social movements and social interest organizations of all sorts are firmly embedded within society and play an essential part in the daily exercise of democracy. However, Taiwan is handicapped by a high exposure to natural calamities, as typhoons and earthquakes hit the island every year and tax the government's administrative capabilities and financial resources. Taiwan's main structural constraint is its diplomatic isolation and China's de-facto veto power concerning Taiwan's participation in the international community as a sovereign state, which significantly impedes on its self-determined management of international relations.

Structural
constraints
2

In light of Taiwan's historically authoritarian rule, its tradition of civic engagement is weak, but social movements played a major role before and after the transition to democracy in the mid-1980s, contributing substantially to democratic consolidation. Today, Taiwan has one of the most vibrant civil societies in Asia, characterized by numerous NGOs engaged in all sorts of public activity. However, ideological polarization and division still play a role when issues of national identity are at stake, impacting negatively on the state–society relationship.

Civil society
traditions
5

There is no politically motivated violence in Taiwan. The old conflict between mainlanders and Taiwanese has evolved into a cleavage among the citizenship between the Taiwanese (which now includes mainlanders) who disagree on the island republic's national identity and the most sensible approach to secure sovereignty, long-term security and prosperity for the island. While a potential subethnic cleavage has thus largely been overcome, the ideological confrontation between those leaning to Taiwanese independence and those favoring reconciliation with China (while maintaining Taiwan's sovereignty and de facto independence) has to some degree limited institutional efficiency in the government. Still, the

Conflict intensity
2

cross-strait rapprochements made since the KMT's return to power in mid-2008 are supported by the majority of the populace and have triggered much thought within the DPP opposition on how to refine its independence stance and China policy. Though the ideological stand-off between the political camps will not disappear any time soon, there are good grounds to expect that deepening economic and social interaction between Taiwan and China will gradually reduce political polarization.

II. Management Performance

14 | Steering Capability

China's de facto veto power is a powerful constraint on a free and effective setting of political priorities in Taiwan's international relations and foreign policy. China, however, also plays an important role in domestic politics. Since Taiwanese society is polarized on the issues of national identity and cross-strait relations, domestic politics is still conceived of as a zero-sum game between the opposing party camps, and the island republic's political elites are very much driven by electoral competition. As cross-strait relations remain the only meaningful political cleavage in Taiwan, this impinges on the capacity of any government to take a longer-term political perspective and to garner cross-party consensus and compromise in the realm of policy-making on China. Given Taiwan's system of government, this can lead to deadlock in times of "divided government." On the other hand, when the president has a robust parliamentary majority, political prioritization and wide-ranging reforms are possible even in this contested policy arena. This is shown in the significant changes in cross-strait relations following the KMT's return to power in mid-2008, which are unlikely to be revoked by any future DPP government. If there is broad societal and political approval of more cooperation across the Taiwan Strait based on the "1992 consensus," (which stands for Taiwan's overarching quest for sovereignty), it will allow for more long-term government initiatives vis-à-vis the Chinese mainland. Furthermore, in other policy fields, political competition is considerably less severe and inter-party compromise is possible. Besides, there is a strong consensus among the political elites that constitutional democracy and a socially responsible market economy must not be jeopardized by the conflict over Taiwanese independence. This consensus helps to prevent government policy from becoming too volatile, even in stormy electoral campaigns.

As Taiwan's market economy and democratic order are already well developed, any assessment concerning the implementation efficiency of the government's priority policies starts from an advanced vantage point. The current KMT government was

Question
Score

Prioritization
9

Implementation
10

able to realize speedily its most important political project of normalizing cross-strait ties after regaining power in 2008, most notably by the establishment of direct links between China and Taiwan, and the signing of a quasi-free trade agreement with the PRC. Since it dominates the legislature by an absolute majority, the KMT can easily implement most of its national policies and connected legislation though it must pay attention to not being labeled as undemocratic by an opposition that still enjoys much legitimacy from its former struggle against authoritarian KMT rule.

Generally speaking, political learning in Taiwan often takes place in economic and social policy-making, thanks to the leadership's close-knit relations to well-established social organizations and interest groups who keep it informed of the need for policy adjustments and new initiatives. By launching a new China policy, the current KMT government has not acted primarily for ideological reasons, but in response to increasing demands from society to facilitate access to mainland China's markets and to ease cross-strait tensions. At the same time, it has responded to the demand for Taiwanese sovereignty, dignity, and economic well being to be protected during the process of reshaping cross-strait relations. This has influenced the way that specific policy initiatives have been formulated, for instance the content of the ECFA agreement with its particular concern for the protection of Taiwan's agricultural products and labor market. Similarly, the DPP's painful losses in the 2008 presidential and parliamentary elections as well as in the 2010 municipal polls in Taiwan's five largest cities have prompted the party to start a debate on its stance on Taiwan independence and on a more realistic platform for its cross-strait policy.

Policy learning
9

15 | Resource Efficiency

In comparison with most other countries in the Asia-Pacific region, the government makes efficient use of available economic and human resources to pursue its policies. While the top positions in Taiwan's administrative bodies are filled with political figures who may or may not be experts in the relevant field, the rank-and-file is recruited according to established rules and qualification levels. Taiwan's Examination Yuan, a constitutional organ responsible for the education, recruitment and evaluation of the country's public officials, is currently preoccupied with reform proposals to institute performance evaluations for all civil servants. Serious cases of corruption in Taiwan's bureaucratic apparatus are rare and mostly involve politically nominated public officials, not professional civil servants. The ministry of audit, which is one of the two component units of Taiwan's watchdog constitutional organ, the Control Yuan, exercises the power to monitor governmental expenditure and ensures that public revenues are spent according to the law. In the 2010 World Competitive Yearbook published by the Switzerland-based International Institute for Management and Development, Taiwan ranked

Efficient use of
assets
9

sixth in government efficiency (and eighth in overall competitiveness) among the 58 nations surveyed. The country's efficient use of budgetary resources is also indicated by manageable levels of external debt (2009: 21.8% of GDP) and reliable budgetary planning.

Traditionally, Taiwan's political system is strongly influenced by the president who not only determines the foreign and China policy agenda, but is also expected to decide on conflicting policies and competing interests within the government apparatus. Since the president nominates the prime minister (also commonly referred to as the premier) without parliamentary consent, there is a high degree of like-mindedness between the presidential and prime ministerial offices. Moreover, the current KMT-majority caucus in the legislature is usually loyal to the president and the government, meaning that legislative initiatives passed down by the Executive Yuan are scarcely contested. Consequently, government policies are quite coherent, as has been shown by the government's management of cross-strait relations since mid-2008 and the negotiating process that led to the ECFA.

Policy
coordination
9

Taiwan's anti-corruption policies are very strict. A series of "sunshine bills" have been passed since the early 1990s to combat political corruption. One example is the Public Functionary Assets Disclosure Act of 1993, which requires the declaration of all income and assets by high-ranking officials and elected representatives. The 2004 Political Contribution Act limits political donations and makes campaign financing more transparent. Taiwan's media and public are very sensitive to political corruption, having played a role in exposing officeholders who have been charged with misbehavior. The legal system persecutes corruption resolutely. High-level cases like that of former President Chen Shui-bian, who was detained on charges of money laundering and bribery when his administration ended in mid-2008, demonstrate Taiwan's strict stance on official misconduct. The Control Yuan was defunct in the last three years of Chen's last term, but is once more actively overseeing government policy and controlling public officials. It partakes in the effort to curb political corruption, and its Ministry of Audit is responsible for ensuring that public resources are spent efficiently. In late 2010, the first reading of a new Anti-Corruption Administration Act was passed, which should further restrict corruption in public and private business.

Anti-corruption
policy
9

16 | Consensus-Building

All major political actors agree on maintaining and strengthening Taiwan's market-based democracy. There is still disagreement on the scope and speed of economic interaction and integration with the Chinese mainland, which is critical for the sustainability of Taiwan's economic well-being. However, the cross-strait political rapprochement gained since 2008 and the signing of the ECFA agreement in mid-2010 are achievements that promise to bring about an ever-growing interparty

Consensus on goals
10

consensus that there is no alternative but to open up the market to the Chinese mainland.

There are no anti-democratic veto actors in Taiwan.

Anti-democratic
actors

10

The most serious domestic cleavage between advocates of Taiwanese independence and Chinese unification is reflected in the ongoing division of the party system into two rival (“pan-blue” and “pan-green”) camps. In recent years, however, this ideological confrontation has turned into a conflict on pragmatic cross-strait policies and their strategic timing, which means that neither total independence nor unification with the PRC can be realized without the democratic consent of the Taiwanese people. The “identity cleavage” is less serious in present-day Taiwan than it appears from the outside. Since the change of government in 2008, when the KMT returned to power and initiated a new round of cross-strait negotiations after eight years of political standstill over the Taiwan Strait, a new consensus has been built among the populace that economic and social integration with the Chinese mainland need not impinge on Taiwan’s claim to sovereignty. This has forced the DPP opposition to engage in serious soul-searching to refurbish its ideology and China policy approach.

Cleavage /
conflict
management

9

Generally speaking, civil society in Taiwan has meaningful access to political decision-making and is considered an important contributor to the formulation and evaluation of policies. The government sponsors regular meetings with civil society leaders and invites them to national conferences on particular problems regarding economic and social development, environmental protection or educational reform. However, there is a difference between the former DPP government and the now ruling KMT: The DPP, which is itself very much a result of civic engagement during the authoritarian era, strongly appreciates civil-society input into the governing process. The KMT, for its part, is more bureaucratic, and its authoritarian past makes it more difficult for the ruling party to communicate to civic groups and their leaders. However, strong links exist between the KMT and professional and business organizations. At the same time, ideological polarization divides many movements and groups, thus making it difficult for them to speak to politicians from rival camps. Consequently, civil society participation is still conditioned by who is governing, though it is institutionalized at a high level.

Civil society
participation

9

Reconciliation has not been a major political issue during the review period as the most important cleavages in Taiwan’s post-war society – the conflict between mainlanders and Taiwanese and the crimes of the “White Terror” era in the 1950s and 1960s – have already been addressed by the former KMT government under Lee Teng-hui and under the Chen administration. However, in Taiwan’s highly politicized society, the KMT’s authoritarian past remains a sensitive issue often

Reconciliation

8

invoked by the pan-green camp to mobilize against the KMT and against China's claim to sovereignty over the island. There are also efforts by academics who promote "transitional justice" and the setup of a "truth commission" for clarifying the question of political responsibility and helping those who have been victimized during the "White Terror" to tell their stories and gain compensation from the government. The current KMT administration is clearly not interested in dragging its authoritarian past into the public limelight and compromising its moral integrity in the eyes of many Taiwanese.

17 | International Cooperation

Taiwan's integration into the international community is constrained by China's strict stance on banning the island republic's access to all international organizations which are based on the principle of national sovereignty. However, under various euphemisms for its national title, Taiwan participates in a large number of international organizations. Taiwan's reputation for adapting to new circumstances and learning from its international environment is well-known and explains much of the "Taiwan miracle." Within the international community, it has earned a reputation of high credibility and reliability in implementing necessary market reforms. Since its access in 2002, Taiwan has smoothly integrated in the WTO framework to facilitate global trade. It implements WTO rules well.

Effective use of
support
10

Since China prevents Taiwan's entry into most international and regional organizations and bodies in state capacity, it is particularly important for Taiwan to demonstrate credibility, reliability and generosity in the international arena. By convincing the world's public that it rightfully claims sovereignty and that its diplomatic isolation deprives the international community of full use of Taiwan's expertise and financial might, Taiwan enjoys a good reputation as political partner and engaged donor of development aid and humanitarian assistance. In recent years, it has largely abandoned "dollar diplomacy" as a means to trade financial support for international recognition, both for reasons of low effectiveness and severe public criticism.

Credibility
10

Taiwan cooperates actively and successfully in regional and international organizations like the Asian Development Bank (ADB), the Asia-Pacific Economic Cooperation (APEC) and the WTO (though not under its official state name of "Republic of China"). In May 2009, it has also become an observer at the World Health Assembly. Taiwan is a strong advocate of regional integration and cooperation. After the change of government in mid-2008 and the return of the KMT to power, it has embarked on a strategy of "controlled" economic and social integration with the Chinese mainland, thus considerably easing cross-strait

Regional
cooperation
10

tensions and paving the way for its future inclusion in more free trade regimes in the region, most notably the ASEAN Free Trade Zone.

Strategic Outlook

Since Taiwan's most recent change of government in mid-2008 brought the KMT back to power after eight years in opposition, Taiwan is seeing more stable cross-strait relations and the political will on both sides of the Taiwan Strait to intensify bilateral cooperation. The ongoing debate on the opportunities and risks connected to the ECFA (signed in June 2010) has highlighted the open question as to what extent increasing economic (and social) integration between China and Taiwan will help the Taiwanese economy to maintain and further develop its international competitiveness. Opponents argue that integration exposes Taiwan to economic "colonization" and political blackmail by China. Undoubtedly, the ECFA's rationale is not purely economic, but highly political: As both sides have repeatedly claimed, economic integration should be a means rather than an end in itself. However, the ultimate objectives of China and Taiwan are different: Whereas the former seeks eventual unification, the latter continues to aim to maintain sovereignty (or de facto independence) at least under the present political conditions on the mainland. This is a basic contradiction that makes any Taiwanese move risky, given the PRC's rising economic might and military power.

The current KMT government insists that there is no alternative to further integration for both economic and political reasons, but this position must stand the test of the coming years. Most importantly, it remains to be seen if the Chinese government will stick to its promise – recorded in the ECFA framework – to protect Taiwanese economic interests, and does not press for a swift political settlement of the decades-old cross-strait dilemma. At this point, it seems that the current patterns of cross-strait dialogue and cooperation stand a fair chance of easing tensions across the Taiwan Strait in the long-term. They might bring about an overarching consensus in Taiwan on the notion that the promotion of integration and the protection of sovereignty can be two sides of the same coin, and not contradictions. Moderate voices within the DPP demand a change of the party's China policy approach that makes real dialogue with China possible. However, much depends on developments in China where a "fifth generation" of party leaders prepares to take over in 2012. It is reasonable to assume that they do not want to rock the boat of cross-strait relations, but more than questionable that they will ever accept Taiwan's claim to sovereignty and allow the island republic more international space.

Meanwhile, cross-strait integration is making headway "subofficially" as well, with a steady flow of Taiwanese capital to the Chinese mainland and increasing numbers of Taiwanese – businessmen and their families, white-collar workers and students – leaving the island to live and work in China. More Chinese capital will come to Taiwan in the next few years, as will people – not only as tourists and students but also as mainland spouses and children of Taiwanese. It is difficult to predict the future consequences of both official and "subofficial" integration for

Taiwan's economy and society, but they will certainly influence the domestic identity discourse and reduce the degree of ideological polarization in Taiwan's relations to mainland China. The tentative movement within the DPP to adjust its China policy reflects that beyond the fact of an ongoing dispute on sovereignty and on the question of how to respond adequately to China's military threat, cross-strait relations will be increasingly influenced by direct people-to-people contacts in the future, slowly paving the way for a new era of coexistence. This will also impact the process of Taiwan's further political and economic transformation as it will probably further reduce the salience of cross-strait relations as the dominant social cleavage. Currently, this cleavage still overrides all other political, social and economic conflicts.